

City of Fort Madison

**Independent Auditor's Report
Management's Discussion and Analysis
Financial Statements and Supplementary Information
Independent Auditor's Reports on Internal Control and Compliance
Schedule of Findings and Questioned Costs**

June 30, 2008

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City of Fort Madison

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Ireland	Mayor	January, 2010
Bob Chesnut	Council Member	January, 2012
Kevin Rink	Council Member	January, 2012
Mark Lair	Council Member	January, 2012
Carrie Fraise	Council Member	January, 2012
Chris Greenwald	Council Member	January, 2010
Neal Boeding	Council Member	January, 2010
Brad Randolph	Council Member	January, 2010
Larry Dinwiddie	Interim City Manager	Indefinite
Suellen Mead	City Clerk	Indefinite
Peggy Steffensmeier	City Treasurer	Indefinite
Robert N. Johnson, III	Attorney	Indefinite
Bruce Niggemeyer	Chief of Police	Indefinite
Joey Herren	Fire Chief	Indefinite



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Independent Auditor's Report

Honorable Mayor and City Council of
the City of Fort Madison, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fort Madison, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fort Madison's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - cash basis of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fort Madison as of and for the year ended June 30, 2008, and the respective changes in financial position - cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated September 24, 2008 on our consideration of the City of Fort Madison's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 9 and budgetary comparison information on pages 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fort Madison's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting.

The supplementary information, as in the table of contents, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

The other data included in this report, designated as the "Statistical Section" in the table of contents, was not audited by us and, accordingly, we express no opinion on it.

CPA Associates PC

September 24, 2008

City of Fort Madison Management's Discussion and Analysis

The City of Fort Madison provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The City's governmental funds' receipts increased 12%, or approximately \$1,354,000, from fiscal year 2007 (FY07). Iowa Department of Economic Development Community Development Block Grant was received for Siemens - \$1,005,000.
- City program disbursements increased 1.8%, or approximately \$198,000, from FY07 due to Capital projects (Library and 15th Street replacement).
- The City's governmental funds' cash balance at June 30, 2008 increased 5.8%, or approximately \$269,300, from June 30, 2007. This is due to the City receiving reimbursements for projects under construction.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.
- The Government-wide Financial Statements consist of a statement of activities and changes in cash balances. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Supplementary Information provides detailed information about the annual budget, nonmajor governmental funds and debt obligations.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net assets is divided into two kinds of activities:

The City's governmental activities are displayed in the statement of activities and changes in cash balance. Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

The business-type activities of the City include the water, sewer and solid waste departments. These activities are financed primarily by user charges.

Fund Financial Statements

The fund financial statements begin on page 10 and provide detailed information about individual, significant funds; not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. Governmental funds are reported on the basis of cash receipts and disbursements. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Financial records and reports are prepared on the basis of when cash is received and disbursed. The government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report the same

functions presented as business-type activities in the government-wide statement of activities and changes in cash balance. The City maintains the Enterprise Funds to provide information for the water, sewer, and solid waste funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, the City reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The City does not report capital assets or depreciation on those assets as would be required by GAAP.

Governmental Activities

The City's cash balance for governmental activities increased from a year ago, increasing from \$4.34 million to \$4.61 million. Our analysis below focuses on this change in cash balance and changes in receipts and disbursements from the prior year.

Changes in Cash Basis Net Assets of Governmental Activities (in thousands)

	2008	2007
Receipts:		
Program receipts:		
Charges for services	\$ 349	\$ 398
Operating grants, contributions and restricted interest	4,143	2,256
General receipts:		
Property tax	3,141	3,010
Local option sales tax	1,023	1,085
Tax increment financing	409	346
Debt service	260	287
Unrestricted interest on investments	190	266
Bond proceeds	1,165	1,724
Other general receipts	617	571
Total receipts	<u>11,297</u>	<u>9,943</u>
Disbursements:		
Public safety	3,183	3,139
Public works	1,022	924
Health and social services	39	41
Culture and recreation	967	908
Community and economic development	1,283	2,457
General government	524	712
Debt service	626	560
Capital projects	3,380	2,085
Total disbursements	<u>11,024</u>	<u>10,826</u>
Change in cash basis net assets before transfers	<u>273</u>	<u>-</u>
Transfers, net	<u>(4)</u>	<u>362</u>
Change in cash basis net assets	269	(521)
Cash balance, beginning of year	<u>4,346</u>	<u>4,867</u>
Cash balance, end of year	<u>\$ 4,615</u>	<u>\$ 4,346</u>

The City's total receipts for governmental activities increased by 12% (\$1,354,000). The increase includes Community Development Block Grant to Siemens of \$1,005,000. The total cost of all programs and services increased by approximately \$198,000 or 1.8% with no new programs added this year. This increase was due to the Library and 15th Street replacement projects.

Property tax increased 5% due to receiving more for employee benefits (Municipal Fire & Police pensions and health insurance).

The cost of all governmental activities this year was \$11.02 million compared to \$10.83 million last year. However, as shown in the statement of activities and net assets on page 10, the amount that our taxpayers ultimately financed for these activities through City taxes was \$6.53 million because some of the cost was paid by those directly benefited from the programs (\$349,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,142,900). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, increased in 2008 from approximately \$1,698,000 to approximately \$4,491,900, principally due to an increase in operating and capital grants (\$1,005,000 for Siemens and \$983,200 for road use tax), contributions, and unrestricted interest. The City paid for the remaining public benefit portion of governmental activities with approximately \$6,532,700 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Business-Type Activities

Change in Cash Basis of Net Assets Business-Type Activities (in thousands)		
	2008	2007
Receipts:		
Program receipts:		
Water charges	\$ 2,625	\$ 2,726
Sewer charges	1,509	1,413
Solid waste charges	642	668
General receipts:		
Bond proceeds	525	-
Other miscellaneous receipts	899	663
Total receipts	<u>6,200</u>	<u>5,470</u>
Disbursements:		
Water	2,718	2,576
Sewer	1,868	1,619
Solid waste	690	692
Total disbursements	<u>5,276</u>	<u>4,887</u>
Change in cash basis net assets before transfers	924	583
Transfers, net	<u>4</u>	<u>(362)</u>
Change in cash basis net assets	928	221
Cash balance, beginning of year	<u>4,800</u>	<u>4,579</u>
Cash balance, end of year	<u>\$ 5,728</u>	<u>\$ 4,800</u>

Total business-type activities receipts for the fiscal year were \$6.2 million compared to \$5.5 million last year. This increase was due primarily to the receipt of bond and loan proceeds in 2008. The cash balance increased by approximately \$928,000 from the prior year largely due to the receipt of bond and loan proceeds. Total disbursements for the fiscal year increased by approximately 8% to a total of \$5.28 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows and cash balances of spendable resources. The following are the major reasons for the changes in cash balances from the prior year for the City's major funds.

Governmental Funds

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$1,114,500, an increase of \$242,000 from the prior year. The increase was due to an increase in general fund revenues from cable franchise, building permits, a reimbursement from Sheaffer Pen for a grant that was not fulfilled, an increase in sales tax revenue and the cooperation of the general fund departments in reducing their expenses.

The Road Use Tax Fund cash balance increased by \$6,600 to \$187,400 during the fiscal year. This increase was attributable to a higher per capita rate received from the State. The rising costs of fuel and other petroleum based products are expected to put continued pressure on the cash balance of the Road Use Tax Fund.

The Local Option Sales Tax was established in previous years to provide additional general fund revenues to reduce the City's reliance on property tax revenues and provide a reliable funding source for capital projects. Sixty percent of these Local Option Sales Tax revenues go to the general fund, while the other forty percent goes to pay for capital improvement projects. At the end of the fiscal year, the cash balance was \$1,136,400, an increase of \$202,500 from the previous year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

Proprietary Funds

The cash balance of the Enterprise Funds increased by approximately \$928,000 to \$5,728,000, due primarily to bond and loan proceeds.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget. The amendment was approved on May 20, 2008 and resulted in an increase in revenues of \$3,579,500 and an increase in operating disbursements of \$3,755,750. Increases in revenues included other city taxes, intergovernmental, miscellaneous and other financing sources. Increases in expenditures included public works, community and economic development, transfers, and capital projects.

DEBT ADMINISTRATION

At year-end, the City had approximately \$10,844,700 in bonds and other long-term debt compared to approximately \$9,637,700 last year as shown below.

Outstanding debt at year-end (in thousands)	2008	2007
General obligation bonds	\$ 7,360	\$ 6,085
Revenue bonds	3,228	3,169
Capital loan notes	117	157
Urban renewal TIF's	<u>139</u>	<u>226</u>
Total	<u>\$ 10,844</u>	<u>\$ 9,637</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$7,616,000 is well below the City's \$17.4 million legal debt limit.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2009 fiscal year budget, tax rates, and fees that will be charged for various City activities. The City has experienced a depressed economy in the area due to plant closings in the last 10 years but recently Siemens Wind Generator Plant has opened and that trend has reversed. The local unemployment rate in 2006 was 6.4%. The 2007 rate was 5.9% and the Lee County unemployment rate was 5.8% in June 2008. This should only improve with the favorable economic growth in Fort Madison and Lee County.

The City water department will be starting construction of a new water treatment plant during the 2nd quarter of 2009. Highway 61 by-pass of Fort Madison is scheduled to start in 2009 and is to be completed by 2012. Attendance at the new 16,500 square foot library, which opened in November 2007, has doubled. The assisted living complex and condominium project west of 48th Street have both opened (\$5,800,000 taxable valuation).

With the decline in population in the City and County of 1,326 people or 3.5% from the year 2000 and the State's residential rollback rate, the City's taxable valuation has been reduced resulting in reduced revenues. With the City Council approval of the Port Authority and Enterprise Zone status, the stage is set for additional infrastructure, jobs, and tax revenues from those facilities, but will not be seen for several years. Recent negotiations with all five city unions (police, fire, public works, water and library) resulted in two year contracts with concessions made by the unions in areas of insurance and benefits. Even with these concessions, 2009-2010 fiscal year budgets will be difficult to balance.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to Larry Dinwiddie, Interim City Manager, City of Fort Madison, P.O. Box 240, Fort Madison, Iowa 52627.

FINANCIAL STATEMENTS

City of Fort Madison
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2008

		Program Receipts			Net (Disbursements) Receipts		
		Charges for	Operating Grants	Capital Grants	Governmental	Business-Type	Total
	Disbursements	Service and	Contributions,	Contributions	Activities	Activities	
		Sales	and Restricted				
			Interest				
Functions / Programs:							
Governmental activities:							
Public safety	\$ 3,183,137	\$ 31,466	\$ 176,805	\$ -	\$ (2,974,866)	\$ -	\$ (2,974,866)
Public works	1,021,522	-	987,681	-	(33,841)	-	(33,841)
Health and social services	39,359	-	29,426	-	(9,933)	-	(9,933)
Culture and recreation	967,006	188,533	103,933	-	(674,540)	-	(674,540)
Community and economic development	1,282,920	-	1,017,000	-	(265,920)	-	(265,920)
General government	524,451	129,001	120,440	-	(275,010)	-	(275,010)
Debt service	625,889	-	-	-	(625,889)	-	(625,889)
Capital projects	3,380,235	-	1,707,574	-	(1,672,661)	-	(1,672,661)
Total government activities	<u>11,024,519</u>	<u>349,000</u>	<u>4,142,859</u>	<u>-</u>	<u>(6,532,660)</u>	<u>-</u>	<u>(6,532,660)</u>
Business-type activities:							
Water	2,718,011	2,625,194	16,489	-	-	(76,328)	(76,328)
Sewer	1,867,852	1,508,805	-	-	-	(359,047)	(359,047)
Solid waste	690,243	642,065	-	-	-	(48,178)	(48,178)
Total business-type activities	<u>5,276,106</u>	<u>4,776,064</u>	<u>16,489</u>	<u>-</u>	<u>-</u>	<u>(483,553)</u>	<u>(483,553)</u>
Total	<u>\$ 16,300,625</u>	<u>\$ 5,125,064</u>	<u>\$ 4,159,348</u>	<u>\$ -</u>	<u>(6,532,660)</u>	<u>(483,553)</u>	<u>(7,016,213)</u>
General receipts:							
Property tax levied for:							
General purposes					3,141,689	12,909	3,154,598
Tax increment financing					409,393	-	409,393
Debt service					260,062	-	260,062
Local option sales tax					1,022,920	-	1,022,920
Unrestricted investment earnings					189,645	243,938	433,583
Bond proceeds					1,165,258	984,214	2,149,472
Transfers					(3,850)	3,850	-
Miscellaneous					616,793	166,625	783,418
Total general receipts and transfers					<u>6,801,910</u>	<u>1,411,536</u>	<u>8,213,446</u>
Change in cash balance					269,250	927,983	1,197,233
Cash balance beginning of year					<u>4,345,300</u>	<u>4,800,021</u>	<u>9,145,321</u>
Cash balance end of year					<u>\$ 4,614,550</u>	<u>\$ 5,728,004</u>	<u>\$ 10,342,554</u>
Cash Basis Net Assets							
Restricted:							
Streets					\$ 187,364	\$ -	\$ 187,364
Sales Tax					1,136,350	-	1,136,350
Other purposes					2,176,299	3,286,420	5,462,719
Unrestricted					<u>1,114,537</u>	<u>2,441,584</u>	<u>3,556,121</u>
Total cash basis net assets					<u>\$ 4,614,550</u>	<u>\$ 5,728,004</u>	<u>\$ 10,342,554</u>

See notes to financial statements.

City of Fort Madison
Statement of Cash Transactions and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2008

	Special Revenue						Other Nonmajor Govern- mental	
	General	Road Use	Sales Tax	Urban Renewal TIF	Debt Service	Capital Projects		Total
Receipts:								
Property tax	\$ 1,824,568	\$ -	\$ -	\$ -	\$ 260,062	\$ -	\$ 1,317,121	\$ 3,401,751
Tax increment financing collections	-	-	-	409,393	-	-	-	409,393
Other taxes	-	-	1,022,920	-	-	-	135,494	1,158,414
Use of money and property	149,121	-	-	15,859	-	10,337	40,095	215,412
Licenses and permits	110,357	-	-	-	-	-	-	110,357
Intergovernmental	47,911	983,180	-	-	-	1,406,669	135,890	2,573,650
Charges for services	93,930	-	-	-	-	-	83,837	177,767
Miscellaneous	289,464	13,450	-	1,005,000	-	306,357	471,346	2,085,617
Total receipts	<u>2,515,351</u>	<u>996,630</u>	<u>1,022,920</u>	<u>1,430,252</u>	<u>260,062</u>	<u>1,723,363</u>	<u>2,183,783</u>	<u>10,132,361</u>
Disbursements:								
Governmental activities:								
Public safety	2,906,957	-	-	-	-	-	276,180	3,183,137
Public works	25,035	990,057	-	-	-	-	6,430	1,021,522
Health and social services	360	-	-	-	-	-	38,999	39,359
Culture and recreation	801,016	-	-	-	-	-	165,990	967,006
Community and economic development	64,707	-	-	1,149,575	-	-	68,638	1,282,920
General government	440,856	-	-	-	-	-	83,595	524,451
Debt service	-	-	-	263,061	362,828	-	-	625,889
Capital projects	-	-	-	-	-	3,380,235	-	3,380,235
Total disbursements	<u>4,238,931</u>	<u>990,057</u>	<u>-</u>	<u>1,412,636</u>	<u>362,828</u>	<u>3,380,235</u>	<u>639,832</u>	<u>11,024,519</u>
Excess (deficiency) of receipts over disbursements	(1,723,580)	6,573	1,022,920	17,616	(102,766)	(1,656,872)	1,543,951	(892,158)
Other financing sources (uses):								
Bond proceeds	-	-	-	-	-	1,165,258	-	1,165,258
Operating transfers in (out)	<u>1,965,523</u>	<u>-</u>	<u>(820,375)</u>	<u>(6,000)</u>	<u>2,150</u>	<u>266,515</u>	<u>(1,411,663)</u>	<u>(3,850)</u>
Net change in cash balances	241,943	6,573	202,545	11,616	(100,616)	(225,099)	132,288	269,250
Cash balance beginning of year	<u>872,594</u>	<u>180,791</u>	<u>933,805</u>	<u>278,066</u>	<u>193,884</u>	<u>648,027</u>	<u>1,238,133</u>	<u>4,345,300</u>
Cash balance end of year	<u>\$ 1,114,537</u>	<u>\$ 187,364</u>	<u>\$ 1,136,350</u>	<u>\$ 289,682</u>	<u>\$ 93,268</u>	<u>\$ 422,928</u>	<u>\$ 1,370,421</u>	<u>\$ 4,614,550</u>
Cash Basis Fund Balances								
Reserved:								
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 93,268	\$ -	\$ -	\$ 93,268
Unreserved:								
General fund	1,114,537	-	-	-	-	-	-	1,114,537
Special revenue fund	-	187,364	1,136,350	289,682	-	-	1,183,288	2,796,684
Capital projects fund	-	-	-	-	-	422,928	-	422,928
Permanent fund	-	-	-	-	-	-	187,133	187,133
Total cash basis fund balances	<u>\$ 1,114,537</u>	<u>\$ 187,364</u>	<u>\$ 1,136,350</u>	<u>\$ 289,682</u>	<u>\$ 93,268</u>	<u>\$ 422,928</u>	<u>\$ 1,370,421</u>	<u>\$ 4,614,550</u>

See notes to financial statements.

City of Fort Madison
Statement of Cash Transactions and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2008

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 2,625,194	\$ 1,508,805	\$ 642,065	\$ 4,776,064
Total operating receipts	<u>2,625,194</u>	<u>1,508,805</u>	<u>642,065</u>	<u>4,776,064</u>
Operating disbursements:				
Business-type activities	<u>2,109,570</u>	<u>1,315,672</u>	<u>690,243</u>	<u>4,115,485</u>
Total operating disbursements	<u>2,109,570</u>	<u>1,315,672</u>	<u>690,243</u>	<u>4,115,485</u>
Excess (deficiency) of receipts over disbursements	<u>515,624</u>	<u>193,133</u>	<u>(48,178)</u>	<u>660,579</u>
Non-operating receipts (disbursements):				
Special assessments	5,731	3,599	3,579	12,909
Intergovernmental	123,785	-	-	123,785
Interest on investments	96,715	141,574	5,649	243,938
Customer deposits	20,995	-	-	20,995
Miscellaneous	12,783	23,623	1,928	38,334
Bond proceeds	525,116	-	-	525,116
Loan proceeds	305,878	153,220	-	459,098
Capital projects	(173,630)	(309,722)	-	(483,352)
Debt service	<u>(434,811)</u>	<u>(242,458)</u>	<u>-</u>	<u>(677,269)</u>
Net non-operating receipts (disbursements):	<u>482,562</u>	<u>(230,164)</u>	<u>11,156</u>	<u>263,554</u>
Operating transfers in (out)	<u>-</u>	<u>6,000</u>	<u>(2,150)</u>	<u>3,850</u>
Net change in cash balances	998,186	(31,031)	(39,172)	927,983
Cash balance beginning of year	<u>1,756,927</u>	<u>2,898,533</u>	<u>144,561</u>	<u>4,800,021</u>
Cash balance end of year	<u>\$ 2,755,113</u>	<u>\$ 2,867,502</u>	<u>\$ 105,389</u>	<u>\$ 5,728,004</u>
Cash Basis Fund Balances				
Reserved for equipment replacement	\$ 1,270,785	\$ 2,015,635	\$ -	\$ 3,286,420
Unreserved	<u>1,484,328</u>	<u>851,867</u>	<u>105,389</u>	<u>2,441,584</u>
Total cash basis fund balances	<u>\$ 2,755,113</u>	<u>\$ 2,867,502</u>	<u>\$ 105,389</u>	<u>\$ 5,728,004</u>

See notes to financial statements.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Fort Madison is a political subdivision of the State of Iowa located in Lee County. It was incorporated in 1838 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture, recreation, community and economic development, and general government services. The City also provides water and sewer utilities and solid waste removal for its citizens.

Reporting Entity

For financial reporting purposes, the City of Fort Madison has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and 1) the ability of the City to impose its will on that organization or 2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Planning and Zoning Commission, Board of Adjustments, Airport Commission, Great River Regional Waste Authority, 28E purchasing arrangements, regional planning commission, E911 joint service boards, Southeast Iowa area safety support organizations, ambulance associations, and drug task force.

Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment and community programs and services.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage pick-up system.

Measurement Focus and Basis of Accounting

The City of Fort Madison maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the public works function.

Note 2. Deposits and Investments

The City's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 40.

The City received \$433,579 interest income during the year.

City of Fort Madison
Notes to Financial Statements

Note 3. Bonds Payable and Lease Commitments

A summary of the City's June 30, 2008 general obligation, revenue and special assessment bonded indebtedness is as follows:

Year Ended June 30,	General Obligation		Revenue Bonds		Urban Renewal		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	440,654	301,838	417,000	105,528	67,000	11,158	924,654	418,524
2010	466,308	283,095	857,131	88,024	35,000	5,239	1,358,439	376,358
2011	515,434	263,945	419,220	75,316	37,000	2,310	971,654	341,571
2012	430,000	242,929	277,000	63,682	-	-	707,000	306,611
2013	450,000	225,775	283,000	51,350	-	-	733,000	277,125
2014-2018	2,105,000	874,665	720,000	93,415	-	-	2,825,000	968,080
2019-2023	2,000,000	457,277	209,000	26,070	-	-	2,209,000	483,347
2024-2028	<u>1,070,000</u>	<u>91,814</u>	<u>46,000</u>	<u>1,380</u>	<u>-</u>	<u>-</u>	<u>1,116,000</u>	<u>93,194</u>
	<u>\$ 7,477,396</u>	<u>\$ 2,741,338</u>	<u>\$ 3,228,351</u>	<u>\$ 504,765</u>	<u>\$ 139,000</u>	<u>\$ 18,707</u>	<u>\$10,844,747</u>	<u>\$ 3,264,810</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (c) Monthly transfers equal to a sum of one-twelfth of the principal of all the 1998, 2001 and 2002 Water Revenue Bonds maturing on the next maturity date plus one-sixth of the interest coming due on the next interest payment date shall be made to the Water Revenue Bond Sinking Fund for the purpose of making bond interest and principal payments when due.
- (d) A Water Revenue Bond Reserve Fund of \$619,000 shall be maintained and used solely for payment of principal and interest on the 1998, 2001 and 2002 Water Revenue Bonds and any Parity Bonds when insufficient funds are available in the Water Revenue Bond Sinking Fund.
- (e) A minimum of \$1,500 per month shall be transferred to the Water Revenue Bond Depreciation Fund until a minimum fund balance of \$100,000 is attained. These funds are to be used solely to pay the cost of extraordinary maintenance expense or repairs and capital improvements to the system. At June 30, 2008, this restricted fund had a balance of \$224,725 and is included as part of the Water Revenue Fund balance.

City of Fort Madison
Notes to Financial Statements

Note 4. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most plan members are required to contribute 3.90% of their annual salary and the City is required to contribute 6.05% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006, was \$148,730, \$132,430, and \$130,500, respectively, equal to the required contributions for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation (25.48% as of July 1, 2007). Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2008, 2007, and 2006 was \$360,430, \$412,000, and \$417,600, respectively, equal to the required contributions for each year.

International City Management Association

The Iowa Public Employees Retirement System regulations exempt the City Manager from participating in the state retirement system. Therefore, the City has made a retirement contribution to the ICMA retirement system for the City Manager, which allows contributions up to 25% of salary with a maximum of \$8,000. No contributions were made for the years ended June 30, 2008 and 2007, and \$4,502 was contributed for the year ended June 20, 2006.

City of Fort Madison
Notes to Financial Statements

Note 5. Compensated Absences

City employees, with the exceptions of fire department and water department personnel, accumulate sick leave hours at a rate of 14 hours per month up to a maximum of 1,160 hours. Fire and water department employees accumulate 12 hours per month up to a maximum of 1,160 hours. Accumulated sick leave is not payable on termination, retirement or death, with the exception of water department employees who can receive 400 hours of sick leave upon retirement.

Accumulated sick leave and vacation are not recognized as expenditures by the City until used or paid. The City's maximum liability for unrecognized accrued employee benefits as of June 30, 2008, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 398,806
Sick leave	<u>351,984</u>
	<u>\$ 750,790</u>

This liability has been computed based on rates of pay as of June 30, 2008.

Note 6. Related Party Transactions

The City had business transactions between the City and City officials totaling \$8,365 during the year ended June 30, 2008.

Note 7. Conduit Debt Obligations

The City has, in the past, assisted in several issues of industrial revenue bonds, issued for the purposes of constructing privately owned manufacturing and other related facilities within the City. The bonds are not direct or contingent liabilities of the City, as the revenue from lease agreements and property purchased with the bond proceeds are pledged for the total payment of principal and interest on the bonds and the bondholders can only look to these sources for repayment. The following are the outstanding issues in which the City assisted:

<u>Company</u>	<u>Type</u>	<u>Year Issued</u>	<u>Amount Issued</u>
Fort Madison Community Hospital	Revenue	1996	\$ 3,500,000
WOW, LLC	Revenue	1999	\$ 1,450,000

City of Fort Madison
Notes to Financial Statements

Note 8. Deficit Fund Balance

The following Special Revenue Funds had deficit balances at year end:

Drug Task Force	\$ 14,803
Traffic Safety Grants	<u>142</u>
	<u>\$ 14,945</u>

The deficit balances were a result of costs incurred prior to availability of funds. The deficits will be eliminated upon receipt of grant monies.

Note 9. Risk Management

The City of Fort Madison is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Post-Closure Care Costs

The City was previously a member of the Lee County Solid Waste Commission, a political subdivision pursuant to the Code of Iowa Chapter 28E. The landfill was closed in 1990 and is required to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City has been contributing approximately \$28,500 per year for these costs.

Note 11. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special revenue	\$ 1,965,523
Debt service	Special revenue	2,150
Enterprise funds	Special revenue	3,850
Capital projects	Special revenue	<u>266,515</u>
		<u>\$ 2,238,038</u>

Note 12. Revolving Loan Fund

The City has entered into an agreement with Southeast Iowa Regional Planning Commission (SEIRPC) to establish a revolving loan fund for commercial business growth and to assist in new business development. The City transfers funds to SEIRPC who will administer and manage the revolving loan fund. The amounts to be transferred shall not exceed \$200,000. At June 30, 2008, \$93,170 was outstanding on these loans to businesses.

City of Fort Madison
Notes to Financial Statements

Note 13. Subsequent Event

The Mississippi River flooding started in the Spring 2008 and affected several City owned buildings. The estimated cost to those damaged buildings not reimbursable by the government or insurance approximates \$100,000.

Note 14. Commitments

The City has committed to the following significant projects as of June 30, 2008:

Water treatment plant	\$ 14,000,000
Amtrak depot - City share	150,000
Sacred Heart Road	100,000
Culverts/Happy Hollow	100,000
Combine sewer overflow - 10th Street	2,000,000
ADA sidewalk renovation	<u>40,000</u>
Total	<u>\$ 16,390,000</u>

Note 15. Prospective Accounting Change

The Government Accounting Standards Board (GASB) has issued several statements not yet implemented by the City of Fort Madison . The statements, which might impact the City of Fort Madison, are as follows:

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the City for the fiscal year ending June 30, 2009. This Statement establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This Statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the City for the fiscal year ending June 30, 2009. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities or assets, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the City for the fiscal year ending June 30, 2009. This Statement establishes standards for accounting and financial reporting for obligations to address the current or potential detrimental effects of existing pollution.

REQUIRED SUPPLEMENTARY INFORMATION

City of Fort Madison
Required Supplementary Information
Comparison of Receipts, Disbursements and Changes in Balances - Actual to Budget
Year Ended June 30, 2008

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Less Funds Not Required to be <u>Budgeted</u>	<u>Net</u>	<u>Budget Original</u>	<u>Budget Final</u>	Final to Actual Variance Favorable (Unfavorable)
Receipts:							
Property tax	\$ 3,401,751	\$ -	\$ -	\$ 3,401,751	\$ 3,265,330	\$ 3,265,330	\$ 136,421
Tax increment financing collections	409,393	-	-	409,393	440,450	440,450	(31,057)
Other taxes	1,158,414	-	-	1,158,414	1,386,173	1,431,353	(272,939)
Use of money and property	215,412	243,938	1,424	457,926	413,080	413,080	44,846
Licenses and permits	110,357	-	-	110,357	86,200	86,200	24,157
Intergovernmental	2,573,650	123,785	-	2,697,435	1,579,700	2,913,500	(216,065)
Charges for services	177,767	4,776,064	-	4,953,831	6,372,880	6,372,880	(1,419,049)
Special assessments	-	12,909	-	12,909	13,890	13,890	(981)
Miscellaneous	<u>2,085,617</u>	<u>59,329</u>	<u>-</u>	<u>2,144,946</u>	<u>2,678,600</u>	<u>2,978,600</u>	<u>(833,654)</u>
Total receipts	<u>10,132,361</u>	<u>5,216,025</u>	<u>1,424</u>	<u>15,346,962</u>	<u>16,236,303</u>	<u>17,915,283</u>	<u>(2,568,321)</u>
Disbursements:							
Public safety	3,183,137	-	-	3,183,137	3,288,860	3,288,860	105,723
Public works	1,021,522	-	-	1,021,522	978,330	1,001,830	(19,692)
Health and social services	39,359	-	-	39,359	42,770	42,770	3,411
Culture and recreation	967,006	-	-	967,006	999,790	999,790	32,784
Community and economic development	1,282,920	-	-	1,282,920	389,750	1,394,750	111,830
General government	524,451	-	-	524,451	2,102,670	2,102,670	1,578,219
Debt service	625,889	-	-	625,889	661,500	661,500	35,611
Capital projects	3,380,235	-	-	3,380,235	1,946,550	4,673,800	1,293,565
Business-type	<u>-</u>	<u>5,276,106</u>	<u>-</u>	<u>5,276,106</u>	<u>14,184,370</u>	<u>14,184,370</u>	<u>8,908,264</u>
Total disbursements	<u>11,024,519</u>	<u>5,276,106</u>	<u>-</u>	<u>16,300,625</u>	<u>24,594,590</u>	<u>28,350,340</u>	<u>12,049,715</u>
Excess (deficiency) of receipts over disbursements	(892,158)	(60,081)	1,424	(953,663)	(8,358,287)	(10,435,057)	(9,481,394)
Other financing sources	<u>1,161,408</u>	<u>988,064</u>	<u>-</u>	<u>2,149,472</u>	<u>15,000,000</u>	<u>16,065,000</u>	<u>13,915,528</u>
Net changes	269,250	927,983	1,424	1,195,809	6,641,713	5,629,943	4,434,134
Cash balance beginning of year	<u>4,345,300</u>	<u>4,800,021</u>	<u>185,709</u>	<u>8,959,612</u>	<u>7,873,764</u>	<u>9,154,315</u>	<u>194,703</u>
Cash balance end of year	<u>\$ 4,614,550</u>	<u>\$ 5,728,004</u>	<u>\$ 187,133</u>	<u>\$ 10,155,421</u>	<u>\$ 14,515,477</u>	<u>\$ 14,784,258</u>	<u>4,628,837</u>

City of Fort Madison
Required Supplementary Information
Notes to Required Supplementary Information - Budgetary Reporting
Year Ended June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursement known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and permanent funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$3,755,750. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public works function.

OTHER SUPPLEMENTARY INFORMATION

City of Fort Madison
Combining Schedule of Cash Transactions and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2008

	Special Revenue										Permanent	
	Unrestricted Gifts and Misc	Hotel/Motel Tax	Traffic/Safety Misc Grants	LHAP Grants	Emergency Tax Levy	Drug Task Force	Tobacco and EDSA Grants	Grant Opportunity	Police/Fire Retirement	Insurance Reserve	Cemetery PC	Total
Receipts:												
Property tax	\$ -	\$ -	\$ -	\$ -	\$ 57,030	\$ -	\$ -	\$ -	\$ 396,929	\$ 863,162	\$ -	\$ 1,317,121
Other taxes	-	135,494	-	-	-	-	-	-	-	-	-	135,494
Interest on investments	10,222	-	-	-	-	-	-	20,823	6,564	2,486	-	40,095
Intergovernmental	59,904	-	23,761	-	-	50,525	1,700	-	-	-	-	135,890
Charges for service	83,837	-	-	-	-	-	-	-	-	-	-	83,837
Miscellaneous	191,162	-	-	-	1,200	-	-	277,560	-	-	1,424	471,346
Total receipts	<u>345,125</u>	<u>135,494</u>	<u>23,761</u>	<u>-</u>	<u>58,230</u>	<u>50,525</u>	<u>1,700</u>	<u>298,383</u>	<u>403,493</u>	<u>865,648</u>	<u>1,424</u>	<u>2,183,783</u>
Disbursements:												
Public safety	66,605	-	23,903	-	106,046	71,527	811	-	7,288	-	-	276,180
Public works	6,430	-	-	-	-	-	-	-	-	-	-	6,430
Health and social services	38,999	-	-	-	-	-	-	-	-	-	-	38,999
Culture and recreation	160,990	-	-	5,000	-	-	-	-	-	-	-	165,990
Comm & econ development	2,345	-	-	8,000	-	-	-	58,293	-	-	-	68,638
General government	6,628	75,831	-	-	-	-	-	-	-	1,136	-	83,595
Total disbursements	<u>281,997</u>	<u>75,831</u>	<u>23,903</u>	<u>13,000</u>	<u>106,046</u>	<u>71,527</u>	<u>811</u>	<u>58,293</u>	<u>7,288</u>	<u>1,136</u>	<u>-</u>	<u>639,832</u>
Excess (deficiency) of receipts over disbursements	<u>63,128</u>	<u>59,663</u>	<u>(142)</u>	<u>(13,000)</u>	<u>(47,816)</u>	<u>(21,002)</u>	<u>889</u>	<u>240,090</u>	<u>396,205</u>	<u>864,512</u>	<u>1,424</u>	<u>1,543,951</u>
Other financing sources (uses)												
Operating transfer in	65,231	-	-	15,338	-	10,000	-	-	-	-	-	90,569
Operating transfer out	(52,366)	(59,663)	-	-	-	-	-	(180,439)	(351,822)	(857,942)	-	(1,502,232)
Total other	<u>12,865</u>	<u>(59,663)</u>	<u>-</u>	<u>15,338</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>(180,439)</u>	<u>(351,822)</u>	<u>(857,942)</u>	<u>-</u>	<u>(1,411,663)</u>
Net changes	75,993	-	(142)	2,338	(47,816)	(11,002)	889	59,651	44,383	6,570	1,424	132,288
Cash balance beginning	<u>327,400</u>	<u>-</u>	<u>-</u>	<u>329</u>	<u>85,834</u>	<u>(3,801)</u>	<u>52,471</u>	<u>461,296</u>	<u>72,493</u>	<u>56,402</u>	<u>185,709</u>	<u>1,238,133</u>
Cash balance ending	<u>\$ 403,393</u>	<u>\$ -</u>	<u>\$ (142)</u>	<u>\$ 2,667</u>	<u>\$ 38,018</u>	<u>\$ (14,803)</u>	<u>\$ 53,360</u>	<u>\$ 520,947</u>	<u>\$ 116,876</u>	<u>\$ 62,972</u>	<u>\$ 187,133</u>	<u>\$ 1,370,421</u>
Cash Basis Fund Balances												
Unreserved:												
Special revenue fund	\$ 403,393	\$ -	\$ (142)	\$ 2,667	\$ 38,018	\$ (14,803)	\$ 53,360	\$ 520,947	\$ 116,876	\$ 62,972	\$ -	\$ 1,183,288
Permanent fund	-	-	-	-	-	-	-	-	-	-	187,133	187,133
Total cash basis fund balances	<u>\$ 403,393</u>	<u>\$ -</u>	<u>\$ (142)</u>	<u>\$ 2,667</u>	<u>\$ 38,018</u>	<u>\$ (14,803)</u>	<u>\$ 53,360</u>	<u>\$ 520,947</u>	<u>\$ 116,876</u>	<u>\$ 62,972</u>	<u>\$ 187,133</u>	<u>\$ 1,370,421</u>

**City of Fort Madison
Statement of Indebtedness
Year Ended June 30, 2008**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
GO Bonds 2005 issue	10/05/05	3.75-4.00%	\$ 3,750,000	\$ 3,600,000	\$ -	\$ 170,000	\$ 3,430,000	\$ 141,763	\$ -
Refunding bonds	10/29/02	1.45-2.80%	1,065,000	25,000	-	25,000	-	700	-
Park, library, city hall	08/21/01	3.00-4.50%	540,000	240,000	-	55,000	185,000	10,630	-
GO Bonds 2006 issue	12/01/06	3.75-4.30%	1,740,000	1,740,000	-	50,000	1,690,000	69,043	-
Street improvement	05/01/98	4.20-4.90%	750,000	360,000	-	55,000	305,000	17,183	-
Drainage/flood protection	10/01/99	5.00%	500,000	120,000	-	60,000	60,000	6,000	-
GO Bonds 2008 issue	06/01/08	4.00%	1,690,000	-	1,690,000	-	1,690,000	-	-
Total				\$ 6,085,000	\$ 1,690,000	\$ 415,000	\$ 7,360,000	\$ 245,319	\$ -
Revenue bonds:									
Water revenue capital loan note	07/14/06	0.00%	\$ 1,343,670	\$ 246,253	\$ 305,878	\$ -	\$ 552,131	\$ -	\$ -
Sewer revenue capital loan note	08/02/07	0.00%	165,000	-	153,220	-	153,220	-	-
Water	10/29/02	2.25-4.10%	750,000	505,000	-	55,000	450,000	18,453	-
Water	08/21/01	3.30-5.00%	1,660,000	1,310,000	-	100,000	1,210,000	63,923	-
Sewer revenue capital loan note	09/27/00	3.92%	420,000	144,000	-	46,000	98,000	5,716	-
Sewer revenue capital loan note	04/19/04	3.00%	700,000	619,000	-	29,000	590,000	20,118	-
Water	05/01/98	4.25-4.50%	2,005,000	345,000	-	170,000	175,000	15,525	-
Total				\$ 3,169,253	\$ 459,098	\$ 400,000	\$ 3,228,351	\$ 123,735	\$ -
Capital loan notes:									
Capital loan note - backhoe/loader	08/03/05	6.00%	\$ 51,126	\$ 34,934	\$ -	\$ 10,038	\$ 24,896	\$ 1,873	\$ -
Capital loan note - fire truck	02/02/01	4.75%	287,500	122,500	-	30,000	92,500	5,916	-
Total				\$ 157,434	\$ -	\$ 40,038	\$ 117,396	\$ 7,789	\$ -
Urban renewal TIF's:									
Hall Towing	08/11/93	7.00%	\$ 180,000	\$ 25,000	\$ -	\$ 25,000	\$ -	\$ 1,750	\$ -
Cyprus Climax	09/23/97	Variable	265,000	67,000	-	32,000	35,000	6,030	-
Wolfe Packaging	11/03/99	8.25%	268,000	134,000	-	30,000	104,000	10,436	-
Total				\$ 226,000	\$ -	\$ 87,000	\$ 139,000	\$ 18,216	\$ -
Total of all debt				\$ 9,637,687	\$ 2,149,098	\$ 942,038	\$ 10,844,747	\$ 395,059	\$ -

**City of Fort Madison
Bond and Note Maturities
June 30, 2008**

General Obligation Bonds													
Year Ending June 30.	<u>General Obligation Bonds</u> <u>Issued October 5, 2005</u>		<u>Refunding Bond</u> <u>Issued August 21, 2001</u>		<u>General Obligation Bonds</u> <u>Issued June 1, 2008</u>		<u>Drainage/Flood</u> <u>Protection</u> <u>Issued October 1, 1999</u>		<u>Street Improvement</u> <u>Issued May 1, 1998</u>		<u>General Obligation Bonds</u> <u>Issued December 1, 2006</u>		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2009	3.75%	\$ 175,000	4.40%	\$ 60,000		\$ -	5.00%	\$ 60,000	4.70%	\$ 55,000	3.75%	\$ 50,000	\$ 400,000
2010	3.75%	175,000	4.50%	60,000	4.00%	60,000	-	-	4.75%	60,000	3.75%	70,000	425,000
2011	3.75%	185,000	4.50%	65,000	4.00%	100,000	-	-	4.80%	60,000	3.75%	70,000	480,000
2012	3.75%	190,000	-	-	4.00%	100,000	-	-	4.85%	65,000	3.75%	75,000	430,000
2013	4.00%	200,000	-	-	4.00%	110,000	-	-	4.90%	65,000	3.75%	75,000	450,000
2014	4.00%	210,000	-	-	4.00%	115,000	-	-	-	-	3.75%	80,000	405,000
2015	4.00%	210,000	-	-	4.00%	115,000	-	-	-	-	3.75%	85,000	410,000
2016	4.00%	220,000	-	-	3.65%	125,000	-	-	-	-	3.80%	85,000	430,000
2017	4.00%	200,000	-	-	3.75%	125,000	-	-	-	-	3.85%	90,000	415,000
2018	4.00%	210,000	-	-	3.80%	140,000	-	-	-	-	3.90%	95,000	445,000
2019	4.00%	185,000	-	-	3.90%	140,000	-	-	-	-	3.95%	100,000	425,000
2020	4.00%	190,000	-	-	4.00%	150,000	-	-	-	-	4.00%	105,000	445,000
2021	4.00%	195,000	-	-	4.10%	95,000	-	-	-	-	4.05%	110,000	400,000
2022	4.00%	210,000	-	-	4.15%	40,000	-	-	-	-	4.10%	110,000	360,000
2023	4.00%	215,000	-	-	4.20%	40,000	-	-	-	-	4.15%	115,000	370,000
2024	4.00%	225,000	-	-	4.25%	45,000	-	-	-	-	4.20%	120,000	390,000
2025	4.00%	235,000	-	-	4.30%	45,000	-	-	-	-	4.25%	125,000	405,000
2026	-	-	-	-	4.35%	45,000	-	-	-	-	4.30%	130,000	175,000
2027	-	-	-	-	4.40%	50,000	-	-	-	-	-	-	50,000
2028	-	-	-	-	4.45%	50,000	-	-	-	-	-	-	50,000
		<u>\$ 3,430,000</u>		<u>\$ 185,000</u>		<u>\$ 1,690,000</u>		<u>\$ 60,000</u>		<u>\$ 305,000</u>		<u>\$ 1,690,000</u>	<u>\$ 7,360,000</u>

**City of Fort Madison
Bond and Note Maturities
June 30, 2008**

Revenue Bonds															
Year Ending June 30,	<u>Issued October 29, 2002</u>		<u>Issued April 19, 2004</u>		<u>Issued August 21, 2001</u>		<u>Issued May 1, 1998</u>		<u>Issued September 27, 2000</u>		<u>Issued July 17, 2006</u>		<u>Issued August 2, 2007</u>		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2009	3.30%	\$ 55,000	3.00%	\$ 29,000	4.45%	\$ 110,000	4.50%	\$ 175,000	3.92%	\$ 48,000	0.00%	\$ -		\$ -	\$ 417,000
2010	3.35%	60,000	3.00%	30,000	4.60%	165,000		-	3.92%	50,000		552,131		-	857,131
2011	3.55%	60,000	3.00%	31,000	4.75%	175,000		-		-		-	0.00%	153,220	419,220
2012	3.65%	65,000	3.00%	32,000	4.90%	180,000		-		-		-		-	277,000
2013	3.80%	65,000	3.00%	33,000	5.00%	185,000		-		-		-		-	283,000
2014	3.90%	70,000	3.00%	34,000	5.00%	195,000		-		-		-		-	299,000
2015	4.10%	75,000	3.00%	35,000	5.00%	200,000		-		-		-		-	310,000
2016	-	-	3.00%	36,000		-		-		-		-		-	36,000
2017	-	-	3.00%	37,000		-		-		-		-		-	37,000
2018	-	-	3.00%	38,000		-		-		-		-		-	38,000
2019	-	-	3.00%	39,000		-		-		-		-		-	39,000
2020	-	-	3.00%	41,000		-		-		-		-		-	41,000
2021	-	-	3.00%	42,000		-		-		-		-		-	42,000
2022	-	-	3.00%	43,000		-		-		-		-		-	43,000
2023	-	-	3.00%	44,000		-		-		-		-		-	44,000
2024	-	-	3.00%	46,000		-		-		-		-		-	46,000
		<u>\$ 450,000</u>		<u>\$ 590,000</u>		<u>\$ 1,210,000</u>		<u>\$ 175,000</u>		<u>\$ 98,000</u>		<u>\$ 552,131</u>		<u>\$ 153,220</u>	<u>\$ 3,228,351</u>

**City of Fort Madison
Bond and Note Maturities
June 30, 2008**

Capital Loan Notes

Year Ending <u>June 30,</u>	<u>Fire Truck</u> <u>Issued February 2, 2001</u>		<u>Backhoe/Loader</u> <u>Issued August 3, 2005</u>		<u>Total</u>
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	
2009	4.75%	\$ 30,000	6.00%	\$ 10,654	\$ 40,654
2010	4.75%	30,000	6.00%	11,308	41,308
2011	4.75%	<u>32,500</u>	6.00%	<u>2,934</u>	<u>35,434</u>
		<u>\$ 92,500</u>		<u>\$ 24,896</u>	<u>\$ 117,396</u>

Urban Renewal TIF's

Year Ending <u>June 30,</u>	<u>Cyprus Climax</u> <u>Issued September 23, 1997</u>		<u>Wolfe Packaging</u> <u>Issued November 3, 1999</u>		<u>Total</u>
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	
2009	9.25%	\$ 35,000	8.25%	\$ 32,000	\$ 67,000
2010		-	8.25%	35,000	35,000
2011		<u>-</u>	8.25%	<u>37,000</u>	<u>37,000</u>
		<u>\$ 35,000</u>		<u>\$ 104,000</u>	<u>\$ 139,000</u>

City of Fort Madison
Schedule of Receipts by Source and Disbursements by Function
- All Governmental Fund Types

	Year Ended June 30,					
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:						
Property tax	\$ 3,401,751	\$ 3,296,898	\$ 3,121,988	\$ 3,436,330	\$ 3,531,397	\$ 3,253,011
Tax increment financing	409,393	345,868	311,332	113,805	139,318	210,536
Other city tax	1,158,414	1,246,721	1,127,272	1,051,357	1,083,236	951,098
Use of money and property	215,412	266,201	139,397	103,055	119,138	189,267
Licenses and permits	110,357	133,055	50,615	81,942	62,527	46,462
Intergovernmental	2,573,650	1,850,646	1,882,041	1,783,304	1,818,101	2,140,634
Charges for services	177,767	221,502	191,730	192,153	209,909	235,452
Special assessments	-	-	1,130	917	596	1,115
Miscellaneous	<u>2,085,617</u>	<u>813,407</u>	<u>2,194,808</u>	<u>2,185,837</u>	<u>1,886,102</u>	<u>597,234</u>
Total	\$ <u>10,132,361</u>	\$ <u>8,174,298</u>	\$ <u>9,020,313</u>	\$ <u>8,948,700</u>	\$ <u>8,850,324</u>	\$ <u>7,624,809</u>
Disbursements:						
Public safety	\$ 3,183,137	\$ 3,139,372	\$ 3,472,101	\$ 2,829,448	\$ 2,917,643	\$ 2,863,765
Public works	1,021,522	924,003	1,016,709	1,076,688	980,075	830,947
Health and social services	39,359	41,334	36,498	37,616	39,599	39,589
Culture and recreation	967,006	908,384	992,903	938,339	1,245,505	1,293,043
Community and economic development	1,282,920	2,456,375	421,993	402,983	639,942	913,105
General government	524,451	667,301	1,906,586	1,821,715	622,754	628,539
Debt service	625,889	559,670	635,772	677,883	2,015,079	1,880,074
Capital projects	<u>3,380,235</u>	<u>2,085,065</u>	<u>697,147</u>	<u>302,088</u>	<u>1,258,502</u>	<u>991,449</u>
Total	\$ <u>11,024,519</u>	\$ <u>10,781,504</u>	\$ <u>9,179,709</u>	\$ <u>8,086,760</u>	\$ <u>9,719,099</u>	\$ <u>9,440,511</u>

City of Fort Madison
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

<u>Federal Agency/Pass Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Disbursements</u>
<u>Indirect:</u>			
Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Loan Funds	66.468	PD-DW-06-04	\$ 21,771
U.S. Department of Transportation Iowa Dept. of Public Safety/Governor's Traffic Safety Bureau Alcohol Incentive Grant	20.601	PAP 08-410 Task 29	14,920
Alcohol Incentive Grant	20.601	PAP 07-410 Task 15	8,483
State and Community Highway Safety	20.600	HES-61-1(152)--2H-56	333,983
U.S. Department of Housing and Urban Development Iowa Department of Economic Development Community Development Block Grant	14.228	06-ED-003	1,005,000
<u>Direct:</u>			
U.S. Department of Justice Office of Community Oriented Policing Services	16.579	07JAG/C06-A08	49,609
Corporation for National and Community Service Retired Senior Volunteer Program	94.002	06SRNIA005	20,705
U.S. Department of Transportation Surface Transportation Program	20.205	STP-U-2697(614)--70-56	388,098
Federal Aviation Administration Airport Improvement Program	20.106	3-19-0036-03	<u>83,007</u>
			<u>\$1,925,576</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Fort Madison and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**City of Fort Madison
Miscellaneous Statistical Data**

Major Area Employers

<u>Name</u>	<u>Product</u>	<u>Approximate Number of Employees</u>
Pinnacle Foods Inc.	Canned meats and shelf stable microwavables	430
Iowa State Penitentiary	Corrections facility	522
Fort Madison Community School District	Education	323
Fort Madison Community Hospital	Healthcare	446
Inhance Corporation	Healthcare - nursing homes	175
Siemens	Blades for wind turbines	297
Industrial Tooling	Fabrication and tooling equipment	185
E.I. Dupont de Nemours	Industrial and automotive sealants and finishes, resins & thinners	155
The Scotts Co.	Consumer products for home, lawn and garden	200
Silgan Containers Corp.	Soft drawn aluminum containers	135
Climax Molybdenum Company, Division of AMAX	Molybdenum chemicals and sulfuric acid	142

City of Fort Madison
Miscellaneous Statistical Data

Date of Incorporation January 18, 1838
Form of Government Mayor-Council with Full-Time City Manager
Area 16.58 square miles

Fire Protection:

Number of stations	1
Number of employees	15

Police Protection:

Number of stations	1
Number of employees	22

Recreation:

Number of parks	9
Number of acres	238.2

Cemeteries	4
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Airports	1
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Employees:

Permanent	93
Permanent part time	15

Schools:

Public	4
Parochial	2

2007-08 Tax Rates:

City	16.04850
County	8.93676
School	14.52942
Merged Area College	.98858
Other	.65117
Total	<u>41.15443</u>

Population:

2000	11,476
1990	11,618
1980	13,520
1970	13,966
1960	15,247
1950	14,954
1940	14,063
1930	13,779



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**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Fort Madison, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 24, 2008. Our report expressed an unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Fort Madison's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Fort Madison's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Fort Madison's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Fort Madison's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Fort Madison's financial statements that is more than inconsequential will not be prevented or detected by City of Fort Madison's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Fort Madison's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe none are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Fort Madison's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Fort Madison's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Fort Madison's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Fort Madison and other parties to whom City of Fort Madison may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fort Madison during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CPA Associates PC

September 24, 2008



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**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of City of Fort Madison, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2008. City of Fort Madison's major federal programs are identified in Part III of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of City of Fort Madison's management. Our responsibility is to express an opinion on City of Fort Madison's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fort Madison's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Fort Madison's compliance with those requirements.

In our opinion, City of Fort Madison complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of City of Fort Madison is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Fort Madison's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Fort Madison's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weakness as defined below. However, as discussed below, we identified a deficiency in internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-08 not to be a material weakness.

City of Fort Madison's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Fort Madison's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Fort Madison and other parties to whom City of Fort Madison may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates PC

September 24, 2008

City of Fort Madison
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 20.600 - Department of Transportation - State and Community Highway Safety
 - CFDA Number 20.601 - Department of Transportation - Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant
 - CFDA Number 20.205 - Department of Transportation - Surface Transportation Program
 - CFDA Number 14.228 - Iowa Department of Economic Development - Community Development Block Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Fort Madison did not qualify as a low-risk auditee.

City of Fort Madison
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES

- II-A-08 Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with generally accepted accounting principles. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of Fort Madison. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

- II-B-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council and management should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were noted.

City of Fort Madison
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Part III: Findings and Questioned Costs for Federal Awards

Instance of Non-Compliance:

No matters were noted.

SIGNIFICANT DEFICIENCY

- III-A-08 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-B-08.

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-08 Official Depositories - A resolution naming official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2008.

- IV-B-08 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- IV-C-08 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Chris Greenwald, Council Member Owner of River City Motors	Vehicle repairs, per bid	\$ 8,365

The vehicle repair transactions do not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

- IV-D-08 Revenue Notes - The City has established sinking, reserve and surplus accounts required by the water revenue note resolutions.
- IV-E-08 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- IV-F-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Fort Madison
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting (continued)

IV-H-08 Certified Budget - Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the public works function. Chapter 384.20 of the Code of Iowa states in part that monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-I-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-J-08 Financial Condition - The Special Revenue, Drug Task Force Fund and Traffic Safety Grant Fund had deficit balances at June 30, 2008 of \$14,803 and \$142, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to sound financial positions.

Response - These deficits were due to project costs or program costs incurred prior to receipt of revenues or transfers. These deficits will be eliminated.

Conclusion - Response accepted.